

SOO TOWNSHIP, CHIPPEWA COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Soo Township	County Chippewa
Audit Date June 30, 2004	Opinion Date October 31, 2004	Date Accountant Report Submitted to State: March 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASL GU).			X


Certified Public Accountant (Firm Name) Gillett, Halvorsen & Leonhardt, PC			
Street Address 478 W. Spruce Stree, PO Box 437	City Sault Ste. Marie	State MI	ZIP 49783
Accountant Signature 		Date 3/29/05	

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MEMBER OF THE MICHIGAN
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INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Township Board
Soo Township
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the governmental activities and the major fund of Soo Township as of and for the year ended June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of Soo Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities and Major Fund of Soo Township as of June 30, 2004, and the changes in financial position where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Soo Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-7 and the budgetary comparisons on pages 31-32 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States

of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, PC
Certified Public Accountants

October 31, 2004
Sault Ste. Marie, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOO TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

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Within this section of Soo Township annual financial report, the Township's management provides a narrative discussion and analysis of the financial activities of the Township for the fiscal year ended June 30, 2004. Soo Township's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Township's primary government, unless otherwise noted.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The Township also includes in this report additional information to supplement the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Township's annual report includes two government-wide financial statements. These statements provide both long-term and short-term information of the Township's overall status. Financial reporting on this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Township-Wide statement of financial position presenting information that includes all of the Township's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township as a whole is improving or deteriorating. Evaluation of the overall economic health of the Township would extend to other nonfinancial factors such as diversification of the taxpayer base or the condition of Township infrastructure in addition to the financial information provided in this report.

The second government-wide statement is the Statement of Activities which reports how the Township's net assets changed during the current fiscal year. All current year revenues and expenses are included regardless of when cash is received or paid. an important purpose of the design of this statement of activities is to show financial reliance of the Township's distinct activities or functions on revenues provided to the Township.

SOO TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2004

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FUND FINANCIAL STATEMENTS

The Township has two kinds of funds:

Governmental funds are reported in the financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus is very different with fund statements providing distinctive view of the Township's governmental funds. The statements report short-term fiscal accountability focusing on the use of spendable resources available at the end of the year. These are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between the two perspectives may provide insight into the long-term impact of short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balance provide a reconciliation to the government-wide statements to assist in understanding the differences between these two perspectives.

Budgetary comparison statements are included in the basic financial statements for the general fund. These statements and schedules demonstrate compliance with the Township's adopted and final revised budget.

Fiduciary funds such as the employee pension plans are reported in the fiduciary fund financial statements, but are excluded from the government-wide reporting. Fiduciary fund financial statements report resources that are not available to fund Township programs. Fiduciary fund financial statements report similarly to proprietary funds.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which follows the notes to the financial statements.

SOO TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2004

TOWNSHIP AS A WHOLE

The Township's assets exceed its liabilities by \$962,279 for the fiscal year reported.

Total net assets are comprised of the following:

- (1) Capital assets of \$444,448 include land, property and equipment.
- (2) Net assets of \$8,925 are restricted by constraints imposed from outside the Township such as grantors, laws or regulations.
- (3) Unrestricted net assets of \$508,906 represent the portion available to maintain the Township's continuing obligations.

The Township's governmental funds reported total ending fund balance of \$517,831 this year. This compares to the prior year ending fund balance of \$787,290 showing a decrease of \$269,459 during the current year.

The Township implemented GASB-34 accounting procedures for the period beginning July 2003, therefore a comparative analysis cannot be performed this year.

In a condensed format, the table below shows the net assets of the Township at June 30, 2004.

	Governmental Activities
Current assets	\$517,066
Restricted assets	8,925
Non-current assets	444,448

Total Assets	\$970,439

Current Liabilities	\$ 8,160

Net Assets	
Invested in capital assets	\$444,448
Restricted	8,925
Unrestricted	508,906

Total Net Assets	\$962,279
	=====

The Township reported a positive balance of \$962,279 in governmental activities with net assets increased by \$68,510.

SOO TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2004

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THE TOWNSHIP AS A WHOLE (CONTINUED)

The following table shows the activities of Soo Township for the year ended June 30, 2004.

	Governmental Activities -----
Program Revenues	
Charges for services	\$ 4,658
Operating grants	202,788
Capital grants	114,165
General Revenues	
Taxes	139,781
Licenses and permits	200
Payments in lieu of taxes	6,698
Interest income	12,000
Refunds and reimbursements	9,123

Total Revenues	\$489,413
Program Expenses	
Legislative	\$ 4,595
General government	91,286
Public safety	113,892
Public works	166,686
Cultural and recreation	300
Other expenses	44,144

Total Expenses	\$420,903

Change in Net Assets	\$ 68,510
	=====

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUND

As discussed, governmental funds are reported in the fund statements with a short-term, inflow and outflow of spendable resources focus. This information is useful in assessing resources available at the end of the year in comparison with upcoming financing requirements. Governmental funds reported an ending fund balance of \$517,831. Of this year end total, \$508,906 is unreserved indicating availability for continuing Township activities. Reserved fund balances include \$5,481 committed to public safety and \$3,444 committed to public works.

SOO TOWNSHIP

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

June 30, 2004

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FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS (CONTINUED)

The general fund pays for all the Township's governmental services. The most significant are public safety, public works and capital outlay which included expenses of \$758,872 for the year ended June 30, 2004. These services were largely supported by property taxes, state shared revenues and a FEMA grant.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant changes were a decrease in estimated state revenue sharing and the receipt of a FEMA grant for public safety. The Township's actual expenditures exceeded the total budgeted expenditures by \$269,459 for the year ended June 30, 2004, primarily as a result of exceeding the budget expenditure for public safety by \$123,689.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of 2004, the Township had \$444,448 invested in a broad range of capital assets net of accumulated depreciation, including buildings and fire equipment. In addition, the Township has invested significantly in roads within the Township. The assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Chippewa County Road Commission (along with the responsibility to maintain them).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of 5% or inflation. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions. Also, reductions in State Revenue sharing continues to hurt the township.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Supervisor's office at: 639 W. 3 1/2 Mile Road, Sault Ste. Marie, MI 49783 or (906) 632-3406.

BASIC FINANCIAL STATEMENTS

SOO TOWNSHIP
STATEMENT OF NET ASSETS

June 30, 2004

		GENERAL FUND
=====		=====
ASSETS		
Current Assets		
Cash and equivalents		\$515,923
Due from other funds		6
Taxes receivable		1,137

Total Current Assets		\$517,066
Restricted Assets		
Cash and equivalents		8,925
Non-current Assets		
Land		\$ 9,521
Buildings and equipment - net of depreciation		434,927

Total Non-Current Assets		\$444,448

TOTAL ASSETS		\$970,439
		=====
LIABILITIES		
Current Liabilities		
Accounts payable		\$ 7,023
Deferred revenue - taxes receivable		1,137

TOTAL LIABILITIES		\$ 8,160
NET ASSETS		
Invested in capital assets		\$444,448
Restricted for: Public safety		5,481
Public works		3,444
Unrestricted		508,906

TOTAL NET ASSETS		\$962,279
		=====

See accompanying notes to financial statements.

SOO TOWNSHIP

STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

PROGRAM REVENUES					
FUNCTIONS/PROGRAMS	CHARGES				NET
	EXPENSES	SERVICES	OPERATING GRANTS	CAPITAL GRANTS	(EXPENSES) REVENUES
=====					
GOVERNMENTAL ACTIVITIES					
Legislative	\$ 4,595	\$ -0-	\$ -0-	\$ -0-	\$ (4,595)
General government	91,286	4,658	180,616	-0-	93,988
Public safety					
Fire	65,254	-0-	-0-	114,165	48,911
Ambulance	37,690	-0-	18,728	-0-	(18,962)
Planning, zoning and land division	10,948	-0-	-0-	-0-	(10,948)
Public works	166,686	-0-	3,444	-0-	(163,242)
Cultural and recreation	300	-0-	-0-	-0-	(300)
Other expenditures	44,144	-0-	-0-	-0-	(44,144)
	-----	-----	-----	-----	-----
TOTAL GOVERNMENTAL ACTIVITIES	\$420,903	\$4,658	\$202,788	\$114,165	\$ (99,292)
	=====	=====	=====	=====	=====
CHANGE IN NET ASSETS					
Net (Expense) Revenue					\$ (99,292)
GENERAL REVENUES					
Taxes					139,781
Licenses and permits					200
Payments in lieu of taxes					6,698
Interest income					12,000
Refunds and reimbursements					9,123

TOTAL GENERAL REVENUES					\$ 167,802

CHANGE IN NET ASSETS					\$ 68,510
NET ASSETS - JULY 1, 2003					893,769

NET ASSETS - JUNE 30, 2004					\$ 962,279
					=====

See accompanying notes to financial statements.

SOO TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUND

For the year ended June 30, 2004

		GENERAL FUND
=====		=====
ASSETS		
Cash and equivalents		\$524,848
Due from other funds		6
Taxes receivable		1,137

TOTAL ASSETS		\$525,991
		=====
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable		\$ 7,023
Deferred revenue - taxes receivable		1,137

TOTAL LIABILITIES		\$ 8,160
FUND BALANCE		
Reserved for restricted purposes		\$ 8,925
Unreserved		508,906

TOTAL FUND BALANCE		\$517,831

TOTAL LIABILITIES AND FUND BALANCE		\$525,991
		=====

See accompanying notes to financial statements.

SOO TOWNSHIP

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET ASSETS

June 30, 2004

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Total Fund Balance - Governmental Fund	\$517,831
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Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets of \$854,058, net of accumulated
depreciation of \$409,610, are not financial resources
and, therefore, are not reported in the fund.
See note 4 for additional detail.

444,448

NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$962,279
=====

See accompanying notes to financial statements.

SOO TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - GOVERNMENTAL FUND

For the year ended June 30, 2004

	GENERAL FUND
Revenues	
Current property taxes	\$ 109,193
Delinquent property taxes	12,387
Property tax administration fee	18,201
Federal grant	114,165
Licenses and permits	200
State shared revenues	184,060
Contributions from local units	18,728
Payments in lieu of taxes	6,698
Charges for services	2,138
Interest income	12,000
Rental income	2,520
Refunds and reimbursements	9,123

TOTAL REVENUES	\$ 489,413
Expenditures	
Legislative	\$ 4,595
General government	90,923
Public Safety	
Fire	130,909
Ambulance	37,690
Planning, zoning and land division	10,948
Public works	166,686
Cultural and recreation	300
Capital outlay	272,677
Employee benefits	6,849
Insurance, bonds and pension	36,000
Refunds	1,295

TOTAL EXPENDITURES	\$ 758,872

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (269,459)
FUND BALANCE - JULY 1, 2003	787,290

FUND BALANCE - JUNE 30, 2004	\$ 517,831
	=====

See accompanying notes to financial statements.

SOO TOWNSHIP

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2004

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Net change in Fund Balance - Governmental Fund	\$(269,459)
--	-------------

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlays of \$360,897 exceeded depreciation of
\$22,928 in the current period.

337,969

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 68,510
=====

See accompanying notes to the financial statements.

SOO TOWNSHIP

BALANCE SHEET
AGENCY FUND

June 30, 2004

		TAX COLLECTION FUND
=====		=====
ASSETS		
Cash and equivalents		\$ 6 =====
LIABILITIES		
Due to other fund - general		\$ 6 =====

See accompanying notes to financial statements.

SOO TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND

June 30, 2004

		PENSION TRUST FUND
=====		=====
ASSETS		
Cash and equivalents		\$103,379
		=====
NET ASSETS		
Net assets held in trust for pension benefits		\$103,379
		=====

See accompanying notes to financial statements.

SOO TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND

For the year ended June 30, 2004

		PENSION TRUST FUND
ADDITIONS		
Contributions:		
Employer		\$ 4,879
Plan members		2,644

TOTAL CONTRIBUTIONS		\$ 7,523
Investment income		10,040

TOTAL ADDITIONS		\$ 17,563

DEDUCTIONS		
Benefits		\$ 2,787
Administrative expenses		1,501

TOTAL DEDUCTIONS		\$ 4,288

CHANGE IN NET ASSETS		\$ 13,275
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year		90,104

End of year		\$103,379
		=====

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Soo Township, conform to the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Township:

A - REPORTING ENTITY

Financial Reporting Entity

Soo Township is a regular law Michigan township located in the eastern portion of Michigan's Upper Peninsula.

The Township operates under an elected Board of Trustees and provides services to its residents in many areas including fire protection, community enrichment and development and public works.

The Township, for financial purposes, includes all funds relevant to the operations of Soo Township. The financial statements herein do not include agencies which have been formed under applicable State laws or separate and distinct units of government apart from Soo Township.

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. Soo Township has no business-type activities or separate component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B - GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Soo Township has only the general fund.

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable - Current or Property Taxes

The Soo Township property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in Soo Township as of the preceding December 31st.

Although Soo Township 2003 ad valorem tax is levied and collectible on December 1, 2003, it is Soo Township's policy to recognize revenue from the current tax levy in the subsequent year or the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

The 2003 taxable valuation of Soo Township totaled \$73,243,700, on which ad valorem taxes levied consisted of 1.6203 mills for Township operating purposes. This amount is recognized in the General Fund financial statements as tax revenue.

The Township reports the following major governmental fund:

General Fund

This is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of twelve months or less when acquired. Deposits are recorded at cost.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowances for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items - All inventories, including the cost of supplies, are expensed when purchased. Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C - ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Grants and Other Intergovernmental Revenue - Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control - The Township follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Each May, the Township Board prepares a proposed operating budget for the fiscal period commencing July 1 and lapses on June 30. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through a resolution passed by the Township Board.
- d. Budgetary control is exercised at the Township Board level for the General Fund. Any revisions that alter the total expenditures of any fund (i.e., budget amendments) require approval by the Township Board. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Township does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General fund budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the Township Board level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds
	-----	-----
Cash and Cash Equivalents -		
Restricted	\$ 8,925	\$ -0-
Unrestricted	515,923	6
Investments	-0-	103,379
	-----	-----
Total	\$524,848	\$103,385
	=====	=====

SOO TOWNSHIP

NOTE TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	Primary Government -----	Fiduciary Funds -----
Bank deposits - savings	\$309,752	\$ 6
Certificate of deposit	215,096	-0-
Investments	-0-	103,379
	-----	-----
Total	\$524,848	\$103,385
	=====	=====

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Township to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in (a.)
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

- h. Obligation described in (a.) through (g.) if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the carrying amount of the Township's primary and fiduciary deposits was \$524,854 and the bank balance was \$526,159. Of the bank balance, \$300,000, was covered by federal depository insurance according to FDIC regulations. Also, during the year the Township had funds in excess of \$100,000 on deposit in a particular financial institution which would not have been covered by federal depository insurance.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the Township. They are recorded in Township records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 9,521	\$ -0-	\$ -0-	\$ 9,521
Capital assets being depreciated:				
Buildings	228,500	-0-	-0-	228,500
Machinery and equipment	255,140	360,897	-0-	616,037
Subtotal	\$483,640	\$360,897	\$ -0-	\$844,537

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities (Continued):				
Less accumulated depreciation for:				
Buildings	\$137,945	\$ 5,063	\$ -0-	\$143,008
Machinery and equipment	248,737	17,865	-0-	266,602
	-----	-----	-----	-----
Subtotal	\$386,682	\$ 22,928	\$ -0-	\$409,610
	-----	-----	-----	-----
Net Capital Assets Being Depreciated	\$ 96,958	\$337,969	\$ -0-	\$434,927
	-----	-----	-----	-----
Governmental Activity Capital Total				
Capital Assets-Net of Depreciation	\$106,479	\$337,969	\$ -0-	\$444,448
	=====	=====	=====	=====

Depreciation expense was charged to programs of primary government as follows:

Governmental Activities:	
General Government	\$ 5,787
Public Safety	17,141

Total Governmental Activities	\$22,928
	=====

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2004 is as follows:

<u>Interfund Receivable</u>	<u>Interfund Payable</u>
-----	-----
General \$ 6	Tax Collection \$ 6
===	===

There were no interfund transfers for the year ended June 30, 2004.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 6 - RESTRICTED NET ASSETS

The Township received \$3,444 under the Metropolitan Extension Telecommunications Right-of-Way Oversight Act (PA 48 of 2002, MCLS 484.3101 - 3120), also known as the "Metro Act". This represents the Township's portion of the fees being paid to the state by telecommunication providers for the Right-of-Way used within the Township. This funding is restricted in use to the maintenance of the aforementioned right-of-way. As of June 30, 2004, no expenditures have been made for this purpose.

The Township also received \$126,850 in FEMA grants for the purpose of providing funding to local units of government for the purchase of public safety equipment. The Township expensed \$121,411 for this purpose. The restricted amount of \$5,481 includes interest of \$42.

NOTE 7 - LEGAL COMPLIANCE

Excess of Expenditures over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act P.A. 2 of 1968 as amended (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. Soo Township's actual expenditures and budgeted expenditures have been shown on an activity basis. The approved budgets for Soo Township for the budgeted funds were adopted to the activity level.

During the year, Soo Township incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund			
Township Hall	\$10,898	\$ 15,215	\$ 4,317
Public Safety			
Ambulance	33,896	37,690	3,794
Fire	10,194	130,909	120,715
Other Expenditures			
Insurance, bonds and			
pension	35,470	36,000	530
Refunds	1,260	1,295	35

NOTE 8 - DEFINED CONTRIBUTION PLAN

Soo Township maintains a defined contribution plan through Burnham & Flower Agency, Inc. using the Manufacturers Life Insurance Company (USA). The plan name is the Manulife Financial Defined Contribution Pension Plan for Governmental Employees. The plan administrator is the clerk of Soo Township.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

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NOTE 8 - DEFINED CONTRIBUTION PLAN (CONTINUED)

The plan is a money purchase pension plan also called a defined contribution, individual account plan because contributions to the plan are fixed and the retirement benefit is that which the total amount of contributions and earnings (money) will provide (purchase) for each employee.

Participants in the plan are all elected officials of the Township who have attained age 18 and not more than age 75. Currently there are seven participants in the plan.

The Township Board has a policy that permits the Township to have a defined contribution plan which they can amend. They have designated the clerk as plan administrator.

Under an amendment to the plan service agreement dated January 12, 2001, monthly payments based upon annual contributions are required instead of an annual payment under the prior plan.

Also, an amendment was made to change the plan entry date to the first month following the participants employment with the Township rather than at the beginning of the next full plan year.

Contributions to the plan for elected officials are made by Soo Township according to the following schedule:

Annual Compensation	Annual Contribution
-----	-----
Less than \$600	\$150
at least \$600 but less than \$1,200	\$300
at least \$1,200 but less than \$1,800	\$450
More than \$1,800	\$600

The contributions for the plan year were \$4,879 by Soo Township and \$2,644 by the employees. The Township also paid \$601 for plan administrative expenses during the year.

The funds of the Soo Township defined contribution pension plan are invested in Manulife financial general account at interest rates which are guaranteed if held to maturity. These accounts invest primarily in federal and other governmental bonds, corporate bonds and commercial mortgages and are presented at fair market value.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

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NOTE 9 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as workmens compensation benefits provided to employees.

The Township participates in the Michigan Township Participating plan for general liability, property loss, automobile, professional, public official errors and omissions liabilities. This plan is a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township above the \$100 deductible amount. The Township pays an annual premium of \$21,489 for this plan. The plan has a maximum liability for general liability of \$3,000,000, wrongful acts of \$2,000,000 and automobile liability of \$1,000,000.

Therefore, the Township has no additional liabilities beyond the contribution made to the Michigan Township Participating Plan for general liability, property loss, automobile, professional, public official error and omissions liabilities as it is covered by insurance policies or reinsurance treaties obtained by the plan.

In addition, the Township has purchased commercial insurance for workmens compensation benefits.

Settled claims for the insurance have not exceeded the amount of coverage in the past three years. There was no reduction in coverage obtained through insurance during the past year.

NOTE 10 - CONTINGENT LIABILITIES

The Township has received financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Township. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Township at June 30, 2004.

NOTE 11 - POSTEMPLOYMENT

Other than the pension benefits described in Note 8, Soo Township does not provide any postemployment benefits and, therefore, no accrual has been recorded for these benefits as of June 30, 2004.

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

NOTE 12 - COMPENSATED ABSENCES

The Township does not have a vacation or a sick leave benefit policy and, therefore, no accrual has been recorded for these benefits as of June 30, 2004.

NOTE 13 - CHANGES IN ACCOUNTING PRINCIPLE

Effective July 1, 2003, the Township implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 14 - BUDGET AMENDMENT

Once approved, the Township may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Authorized budget amendments were approved as follows:

FUND	AMOUNT
-----	-----
General Fund	
General Government	
Treasurer	\$ 1,437
Assessor	2,154
Clerk	894

SOO TOWNSHIP

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2004

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NOTE 14 - BUDGET AMENDMENT (CONTINUED)

FUND	AMOUNT
-----	-----
General Fund	
General Government (Continued)	
Elections	\$ (1,500)
Legal	6,000
Township Hall	127
Public Safety	
Ambulance	5,896
Planning, zoning and land division	(958)
Public Works	
Highways, streets and bridges	828
Capital Outlay	82,053
Other Expenditures	
Payroll Taxes	381
Insurance bonds and pension	10,470

REQUIRED SUPPLEMENTAL INFORMATION

SOO TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the year ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
REVENUES				
Taxes	\$133,000	\$ 133,000	\$ 139,781	\$ (6,781)
Licenses and permits	-0-	-0-	114,165	(114,165)
Federal grants	-0-	-0-	200	(200)
State grants	180,000	180,000	184,060	(4,060)
Contributions from local units	15,000	15,000	18,728	(3,728)
Payments in lieu of taxes	1,299	1,299	6,698	(5,399)
Charges for services	1,500	1,500	2,138	(638)
Interest income	12,000	12,000	12,000	-0-
Rental income	1,260	1,260	2,520	(1,260)
Refunds and reimbursements	5,000	5,000	9,123	(4,123)
TOTAL REVENUES	\$ 349,059	\$ 349,059	\$ 489,413	\$ (140,354)
EXPENDITURES				
Legislative				
Township board	\$ 4,595	\$ 4,595	\$ 4,595	\$ -0-
General Government				
Supervisor	\$ 8,277	\$ 8,277	\$ 8,277	\$ -0-
Treasurer	14,633	16,070	15,906	164
Assessor	26,395	28,549	27,995	554
Clerk	8,014	8,908	8,671	237
Board of Review	1,223	1,223	1,063	160
Elections	3,272	1,772	780	992
Legal	5,000	11,000	10,016	984
Audit	3,000	3,000	3,000	-0-
Township Hall	10,771	10,898	15,215	(4,317)
Total General Government	\$ 80,585	\$ 89,697	\$ 90,923	\$ (1,226)
Public Safety				
Fire	\$ 10,194	\$ 10,194	\$ 130,909	\$ (120,715)
Ambulance	28,000	33,896	37,690	(3,794)
Planning, zoning and land division	12,726	11,768	10,948	820
Total Public Safety	\$ 50,920	\$ 55,858	\$ 179,547	\$ (123,689)

See accompanying notes to financial statements.

SOO TOWNSHIP

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)

June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE (OVER) UNDER
EXPENDITURES (CONTINUED)				
Public Works				
Highways, streets and bridges	\$ 165,000	\$ 165,828	\$ 165,828	\$ -0-
Streetlights	1,000	1,000	858	142
Total Public Works	\$ 166,000	\$ 166,828	\$ 166,686	\$ 142
Cultural and Recreation				
Library	\$ 300	\$ 300	\$ 300	\$ -0-
Capital Outlay	\$ 204,000	\$ 286,053	\$ 272,677	\$ 13,376
Other Expenditures				
Payroll taxes	\$ 6,500	\$ 6,881	\$ 6,849	\$ 32
Insurance, bonds and pension	25,000	35,470	36,000	(530)
Refunds	1,260	1,260	1,295	(35)
Total Other Expenditures	\$ 32,760	\$ 43,611	\$ 44,144	\$ (533)
TOTAL EXPENDITURES	\$ 539,160	\$ 646,942	\$ 758,872	\$ (111,930)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (190,101)	\$ (297,883)	\$ (269,459)	\$ (28,424)
FUND BALANCE - JULY 1, 2003	787,290	787,290	787,290	-0-
FUND BALANCE - JUNE 30, 2004	\$ 597,189	\$ 489,407	\$ 517,831	\$ (28,424)

See accompanying notes to financial statements.



GILLETT, HALVORSEN & LEONHARDT, P.C.

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MEMBER OF THE MICHIGAN
ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF THE AMERICAN
INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Township Board
Soo Township
Sault Ste. Marie, MI 49783

We have audited the financial statements of Soo Township for the year ended June 30, 2004, and have issued our report thereon dated October 31, 2004. Professional standards require that we provide you with the following information related to our audit.

AUDITOR'S RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter dated September 15, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Soo Township are described in Note 1 to the financial statements.

During the year ended June 30, 2004, the Township did not initiate or change any of their significant accounting policies. The Township did implement GASB Statement No. 34, as amended by Statement No. 37, and Statement No. 38 effective July 1, 2003.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility of that future event affecting them may differ from management's current judgment;

2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS

As part of our audit, we considered the internal control of Soo Township. such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we do not express an opinion on the system of internal control structure of Soo Township taken as a whole. However, our procedures disclosed the following conditions that we would like to bring to your attention.

BUDGET

During the current year, expenditures exceeded the amount appropriated in five instance. Therefore, the Township has not complied with P.A. 621 of 1978, Section 18(1), as amended, which states that a local unit of government shall not incur expenditures in excess of the amount appropriated. We recommend that budget categories should not be over expended and that the budget be monitored and amended as necessary during the year.

CASH AND INVESTMENTS

At year end, the Township had \$226,159 in deposits with financial institutions that are uninsured by federal depository insurance. We recommend that the Township insure all funds. Also, the Township has a municipal investment account with a carrying value of \$103,379 which is also uninsured and uncollateralized.

INTEREST-TAX COLLECTION FUND

Currently, the Township does not prorate and distribute to the various taxing units the interest earned on the tax collection savings account. We recommend that, unless the Township can obtain written agreements with the appropriate taxing units to not do so, the interest be distributed proportionally as required.

UNIFORM CHART OF ACCOUNTS

Currently, the Township does not use the uniform chart of account numbers when it records its financial activity. Along with the written descriptions now used, we recommend that account numbers be also used for proper clarification.

SEGREGATION OF DUTIES

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which the employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with a few employees involved. The careful and consistent oversight provided by the Township Board appears to offset the inability to separate various accounting functions and should be continued. The Township Board maintains monitoring of current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Township Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist.

In addition to the above reportable conditions, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

TAX COLLECTION FUND

The treasurer should have a change fund available during the tax collection fund to facilitate those taxes paid with cash.

This report is intended solely for the information and use of the Township Board.

Gillett Halvorsen & Leonhardt PC

Gillett, Halvorsen & Leonhardt, P.C.
Certified Public Accountants

October 31, 2004
Sault Ste. Marie, Michigan